MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Last week's newsletter discussed the equity risk premium. It's the "excess return" investors need to expect from the stock market, over what they would get from risk free investments, to justify the market's risk. It's likely why Warren Buffett is currently sitting on record "cash", held as short term U.S. Treasuries. Yet most investors let emotions rule their behavior, and don't consider this concept; especially today. You can read the newsletter here *Newsletter - Moulton Wealth*.

ATTEND OUR…

RISK MANAGEMENT

SEMINAR

BRING A GUEST

- **APRIL 24TH @ 9:30 AM – SPOKANE**
- **APRIL 17TH @ 11:00 AM – RICHLAND**

CALL **509-922-3110** TO RESERVE A SEAT *OR IF YOU WANT A SECOND OPINION ON YOUR PORTFOLIO!*

Advisory services through Moulton Wealth Management, Inc., an independent Registered Investment Advisor registered with the SEC

Please see our new website www.MoultonWealth.com. Of the many improvements, the most important is we now host podcasts of past radio shows, allowing you to listen at your convenience. You can also read all the past newsletters and take the test to find your Risk Number.

Last Saturday's radio show discussed a tax court case, the newest jobs report and some of the "green shoots" in the economy. You can listen here: Your Money Matters – Moulton Wealth.

Let's expand on last week's newsletter, and further emphasize its importance.

More and more, we're reading younger investors on twitter or writing on blogs, advocating behavior that has worked for them over their investing lives. Dangerously, their investing lives haven't included a "real" bear market. In real bear markets, "average returns" don't matter. You don't get to withdraw living expenses based on average returns, you have to withdraw them based on actual returns.

First a quick refresher on risk premium and why it matters. If you could choose between three portfolios, one that has averaged 10% returns over the last 5 years, one that's averaged 7.5% returns or one that's averaged 5% returns, which would you choose?

You should have answered "depends". On what? What risk was taken in each?

Let's say the first was 100% in stocks, the second 50% in stocks and 50% in U.S. Treasuries, and the third, 100% in U.S. Treasuries. Does that make a difference?

Starting with $500,000, the 10% portfolio would grow to $805,255 after five years. The 7.5% portfolio to $717,815, and the 5% portfolio to $638,141. *(This is not a prediction, assumes compounding, no fees and that interest rates hold steady.)*

Certainly the 10% portfolio is superior. Or is it?

Now let's consider risk. Let's assume that in year 6, the stock market declines 30%. Even 2022's decline approached this for the S&P-500, and the Dot.com bubble and Great Financial Crisis far exceeded it, so it's not preposterous.

Our 10% portfolio would fall to ***$563,679*** ($805,255 x (100% - 30%)).

Our 7.5% portfolio would fall to ***$628,089***. (Half of the original portfolio would decline by 30% ($376,853 x (100% - 30%)) and the other half would gain 5% ($376,853 x (100% + 5%)).

LISTEN TO RIAL'S AND DON'S RADIO SHOW,

"YOUR MONEY MATTERS"

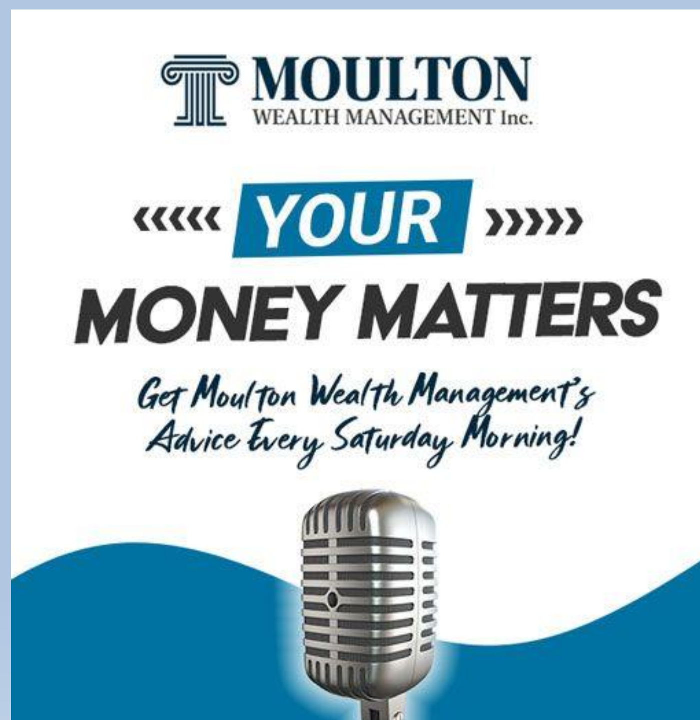
EVERY SATURDAY MORNING AT

8:00 AM ON KXLY RADIO CHANNEL 920 AM IN SPOKANE

AND AT 9:30 AM ON NEWSTALK RADIO CHANNEL 870 AM IN THE TRI-CITIES AREA

LISTEN LIVE AT WWW.NEWSTALK870.AM AGAIN AT 9:30 EACH SATURDAY MORNING

OR VISIT OUR WEBSITE MOULTONWEALTH.COM FOR PODCASTS



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Our 5% portfolio would increase to ***$670,048***. ($638,141 x (100% + 5%)).

Now which is the superior portfolio?

There's not a right or wrong answer. It depends on many factors, only a few of which are:

- Your time horizon.
- Your risk tolerance.
- Your needs.
- Your goals.
- The economy.
- Starting stock valuations.
- Taxes.
- Inflation.

But as you can see from the example, judging a portfolio on returns is only one piece of the puzzle. It's not the whole puzzle.

It also brings up another, very important concept for those either retired or close to it. It's called "sequence risk". This refers to the sequence of returns, not just the return average. The math argues that the return in the years just before, and just into retirement are critical to success. The reason is that a big drawdown during those years can permanently impair your portfolio's ability to provide the income you need.

Let's, again, do some simple math. If you have a $500,000 portfolio from which you need to withdraw $20,000 per year (4% rule), and that portfolio declines 30% in year 1, you now have to withdraw 5.7% of what remains to get your $20,000. Of course if it declines 50% your withdrawal will rise to 8%.

Let's review a theoretical example – and this is only for demonstration purposes. On the following page we show two portfolios.

They each started with the same $500,000, took the same withdrawals every year (started at $20,000 and then increased it by 2% each year for inflation). And they had the exact same average return over 11 years. However, the way they got to that average was different. In fact, for this demonstration, we used the same annual returns, but in a reverse order from one to the other.

What you'll note, based only on the ***sequence of returns***, portfolio B ends up with 57% more at the end of the 11 years than portfolio A.

And in fact, at the end of the 11 years, portfolio B's inflation adjusted withdrawals have declined from the initial 4% to 3.9% while portfolio A's inflation adjusted withdrawals have increased from 4% to 6.1%.

Year	Investor A Portfolio	Return Pattern	Investor B Portfolio	Return Pattern	Withdrawal	Difference Between the 2 portfolios
	$ 500,000.00		$ 500,000.00		$ 20,000.00	
1	$ 503,580.00	5%	$ 561,132.00	17%	$ 20,400.00	$ (57,552.00)
2	$ 313,801.80	-35%	$ 621,372.60	15%	$ 20,808.00	$ (307,570.80)
3	$ 248,690.99	-15%	$ 642,158.83	7%	$ 21,224.16	$ (393,467.84)
4	$ 247,476.16	9%	$ 670,151.00	8%	$ 21,648.64	$ (422,674.84)
5	$ 263,711.62	17%	$ 829,528.81	28%	$ 22,081.62	$ (565,817.20)
6	$ 294,249.81	22%	$ 984,546.79	22%	$ 22,523.25	$ (690,296.98)
7	$ 347,233.41	28%	$ 1,125,040.50	17%	$ 22,973.71	$ (777,807.09)
8	$ 349,704.24	8%	$ 1,200,751.97	9%	$ 23,433.19	$ (851,047.73)
9	$ 348,608.55	7%	$ 1,000,322.60	-15%	$ 23,901.85	$ (651,714.05)
10	$ 372,862.96	15%	$ 634,362.76	-35%	$ 24,379.89	$ (261,499.80)
11	$ 407,154.71	17%	$ 639,970.04	5%	$ 24,867.49	**$ (232,815.33)**
	Average	7.1%		7.1%		

If the assumed bear market drawdown had been bigger (here it comes out to just under 45%), the results would have been even more dramatic.

Risk management is key for success.

Hope for the best, but plan for the worst

Consider exploring how you might add a defensive strategy to your investment approach.

Maybe this time is different, and if you're a buy and hold investor with no defensive strategy, you're betting your portfolio, and possibly your retirement, on it.

Attend a seminar or call the office to find how adding a defensive strategy to your portfolio could help because…

The ledger is stacking up, and not to the positive.

Sure the market comes back, eventually…

How long can you afford your portfolio to be down significantly?

Currently risk free rates approximate 5% compared to what the market "might" make (or more importantly lose) over the coming months, and considering the growing mountain of evidence of an oncoming recession, it seems negligent not to at least explore your options.

This is even more important if your spouse is not as savvy about investments as you are.

The Great Financial Crisis was triggered by the popping of a bubble in real-estate. ***The bubble in real-estate today is bigger by most measures.***

The Dot.com bear market was triggered by the popping of a bubble in equity valuations. ***The equity bubble is bigger today by most measures.***

Neither the Dot.com nor the Great Financial Crisis bear markets had inflation, or nearly as much debt across consumers and businesses as we have today.

If the Dot.com bubble resulted in the S&P-500 falling ~ -50% and the NASDAQ falling over ~ -80%...

If the Great Financial Crisis saw the S&P-500 fall ~ -57% and the NASDAQ falling over ~ -50%...

How much might a market fall with levels exceeding both of those along with inflation and higher leverage?

You don't have to remain locked into the same approach as you had when these risks didn't exist. You are allowed to protect yourself. You can step away and then come back when the risks decline. Call us to find out how.

It's time to focus on return of your money rather than return on your money.

If you still have the same portfolio allocation you had during the bull market, we would ask "why"? The risk profile of the economy and market has changed dramatically and will likely continue to rise. Wouldn't it make sense to adjust your portfolio to what is actually happening?

To be clear, we'll have a great buying opportunity at some point in the future. Usually that happens with the market crashing and most investors disgusted with the thought of investing. If you lose much of your net worth, participating will be difficult.

"You can't buy low if you don't sell high."

Patience and asset protection will be key.

Don't wait until you have suffered unrecoverable losses before taking action.

In the Great Financial Crisis, the S&P-500 fell 24% from the start on October 9, 2007 until the Lehman bankruptcy on September 15, 2008. That was close to a year, and not that far off from what we've lived through so far.

Then in just over a month from September 15, 2008 to October 27, 2008 the S&P-500 fell ***ANOTHER*** 28.8%. And from September 15, 2008 to the ultimate bottom, about 5 months later, it fell ***ANOTHER*** 43%.

Not only do bear markets normally unfold in three stages with the last being the most virulent, it also demonstrates that risk happens slowly and then all at once.

What is your defensive plan?

There's still time.

Call or attend a seminar to hear about ours.

Remember, we have a feature on our website: www.MoultonWealth.com to help you measure your risk tolerance. The problem with trying to decide how much risk to take is we all want to be aggressive when the market is going up, but conservative when it's going down. That's why a sell discipline is important. However, the first line of defense is always our allocation. This approach to measuring risk gives a number by making investors trade off gains and losses. Just click the button to see where you stand.

Get a physical! We invite you to attend a seminar and come in for a "financial physical", even if you think your current approach is fine. Much like going to the doctor for a physical

despite feeling great, you want to make sure any negative issues you may not be aware of are caught early and addressed. For example…

- Do you need a process to help manage losses during the next bear market?
- Have you addressed your investment process and adjusted it for what is going on in the world?
- If not, what are you waiting for?

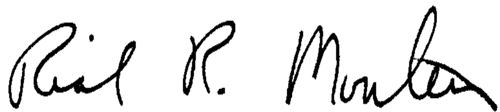
At the bottom of the 2007 - 2009 bear market the S&P-500 index returned to levels last seen in 1996.
The drop didn't retrace only a few months or even a couple years.

We discuss many of these issues and more on the weekly radio show and invite you to listen.

WEEKLY FOCUS – THINK ABOUT IT

Sequence Risk Is Critical To Manage

Yours truly,



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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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https://www.multpl.com/s-p-500-pe-ratio

The Barclays Global Aggregate Bond Index *(formerly Lehman Brothers Global Aggregate Index), is an unmanaged market-capitalization-weighted benchmark, and tracks the performance of investment-grade fixed income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.*

The Barclays U.S. 1-10 Year TIPS Index *is an unmanaged index composed of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of one to ten years.*

The Barclays U.S. Aggregate Bond Index *is an unmanaged benchmark index composed of U.S. securities in Treasury, Government-Related, Corporate, and Securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $250 million.*

The Barclays U.S. TIPS Index *is an unmanaged index composed of all U.S. Treasury Inflation- Protected Securities rated investment grade, have at least one year to final maturity, and at least $250 million par amount outstanding.*

The Barclays U.S. Treasury Index *is an unmanaged index composed of U.S. Treasuries.*

The CDX IG 12 *is a benchmark high-grade derivatives index, which measures the cost of insuring a basket of U.S. investment-grade corporate debt against defaults.*

The Chicago Board Options Exchange Volatility Index (VIX) *tracks the expected volatility in the S&P 500 over the next 30 days. A higher number indicates greater expected volatility. Common usage: The Chicago Board Options Exchange Volatility Index (VIX), a barometer of market volatility.*

The Dow Jones Industrial Average *is a widely followed market indicator based on a price-weighted average of 30 blue-chip stocks that trade on the New York Stock Exchange which are selected by editors of The Wall Street Journal.*

The Dow Jones Wilshire Real Estate Securities Index (RESI) *is used to measure the U.S. real estate market and includes both real estate investment trusts (REITs) and real estate operating companies (REOCs). It is weighted by float-adjusted market capitalization.*

The JP Morgan Emerging Market Bond Index *is a total-return, unmanaged trade-weighted index for U.S. dollar-denominated emerging-market bonds, including sovereign debt, quasi-sovereign debt, Brady bonds, loans, and Eurobonds.*

The JP Morgan EMBI Global Diversified Index *tracks the performance of external debt instruments (including U.S.-dollar-denominated and other external-currency-denominated Brady bonds, loans, Eurobonds and local market instruments) in the emerging markets.*

The JP Morgan GBI-EM Global Diversified Index *tracks the performance of local-currency bonds issued by emerging market governments.*

The MSCI World Index *is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index represents 23 developed market countries.*

The MSCI All Country World Index *is a market-capitalization-weighted index composed of over 2,400 companies, and is representative of the market structure of 46 developed and emerging market countries. The index is calculated with net dividends reinvested in U.S. dollars.*

The MSCI EAFE Index *is an unmanaged, market-capitalization-weighted equity index that represents the developed world outside North America.*

The MSCI Emerging Markets Index *is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging market equities.*

The NASDAQ Composite Index *is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.*

The Russell 1000 Index *includes 1000 of the largest U.S. equity securities based on market cap and current index membership; it is used to measure the activity of the U.S. large-cap equity market.*

The Russell 2000 Index *includes 2000 small-cap U.S. equity names and is used to measure the activity of the U.S. small-cap equity market.*

The S&P 500 Index *is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks in the Industrials, Transportation, Utilities and Financials sectors.*

Investing Terminology

Alpha *is a measure of a portfolio's return above a certain benchmarked return.*

Alternative Investments *are investments that are not one of the three traditional asset types (stocks, bonds and cash). Alternative investments include hedge funds, managed futures, real estate, commodities, and derivatives contracts.*

Asset-Backed Securities (ABS) *are bonds backed by a pool of loans or accounts receivable and commonly include payments from credit cards, auto loans and mortgage loans.*

Austerity *refers to measures taken by a country's government in an effort to reduce expenditures and a budget deficit.*

Beta *is a measure of the volatility or systematic risk of a security or a portfolio in comparison to the market as a whole.*

Book-to-Price Ratio *is the inverse of the price-to-book ratio, which is calculated as the market value of a security divided by its book value. A lower the price-to-book ratio for a security may mean the security is undervalued, and vice versa (the higher the book-to-price ratio, the better the value).*

Commercial Mortgage-Backed Securities (CMBS) *are pools of commercial mortgage loans that are packaged together and sold to the public. They are usually structured in tranches, or classes of risk, so that investors can determine how much risk they want to take on. In general, CMBS carry less prepayment risk than loans backed by residential mortgages.*

Corporate Bonds *are debt securities issued by corporations to raise money; these bonds usually pay higher coupon rates than government or municipal bonds.*

Correlation Risk *refers to the change in the marked to market value of an asset when the correlation between the underlying assets changes over time.*

Credit Ratings *are an assessment of the risk of default of a company or country. The higher the credit quality (or rating), the lower the perceived risk of default.*

Cyclical Sectors or Stocks *are those whose performance is closely tied to the economic environment and business cycle. Managers with a pro-cyclical market view tend to favor stocks that are more sensitive to movements in the broad market and therefore tend to have more volatile performance.*

Debt-to-Equity Ratio *is calculated as long-term debt divided by common shareholders' equity, and measures the amount of a firm's leverage, or debt.*

Donor Advised Funds *are private funds administered by a third party and created for the purpose of managing charitable donations on behalf of an organization, family, or individual.*

Duration *is a measure of a security's price sensitivity to changes in interest rates. Specifically, duration measures the potential change in value of a bond that would result from a 1% change in interest rates. The shorter the duration of a bond, the less its price will potentially change as interest rates go up or down; conversely, the longer the duration of a bond, the more its price will potentially change.*

Excess Returns *are investment returns from a security or portfolio that exceed a benchmark or index with a similar level of risk.*

Grantor Retained Annuity Trust *is an estate planning technique that minimizes the tax liability existing when intergenerational transfers of estate assets occur. An irrevocable trust is created for a certain term or period of time. The individual establishing the trust pays a tax when the trust is established. Assets are placed under the trust and then an annuity is paid out every year. When the trust expires, the beneficiary receives the assets estate and gift tax free.*

High Yield Debt *is rated below investment grade and is considered to be riskier.*

Managed Futures *strategies use futures contracts as part of their overall investment strategy. They provide portfolio diversification among various types of investment styles and asset classes to help mitigate portfolio risk in a way that is not possible in direct equity investments.*

Market Capitalization *is calculated as the number of companies shares outstanding multiplied by the share price, and is used to determine the total market value of a company.*

Momentum *is the rate of acceleration for an economic, price or volume movement; it is used to locate trends within the market.*

Mortgage-Backed Securities (MBS) *are pools of mortgage loans that are packaged together and sold to the public. They are usually structured in tranches, or classes of risk, so that investors can determine how much risk they want to take on.*

Option-adjusted spreads *estimate the difference in yield between a security or collection of securities and comparable Treasuries after removing the effects of any special features, such as provisions that allow an issuer to call a security before maturity.*

Peripheral Eurozone Countries *are those countries in the Eurozone with the smallest economies.*

Price-to-Book Ratio *is calculated as the market value of a security divided by its book value. A lower the price-to-book ratio for a security may mean the security is undervalued.*

Private Foundations *are charitable organizations that do not qualify as public charities by government standards. A private foundation is a nonprofit organization which is usually created via a single primary donation from an individual or a business and whose funds and programs are managed by its own trustees or directors.*

Quantitative Easing *refers to expansionary efforts by central banks to help increase the supply of money in the economy.*

Recapitalized/recapitalization *refers to injecting fresh equity into a company or a bank, which can be used to absorb future losses. This generally takes place through the company issuing new shares. In the case of a government or organization recapitalizing a bank, it usually results in the government or organization owning a stake in the bank.*

Spreads*: Yield spreads represents the difference in yields offered between corporate and government bonds. If they tighten, this means that the difference has decreased. If they widen, this means the difference has increased.*

Standard Deviation*: Statistical measure of historical volatility. A statistical measure of the distance a quantity is likely to lie from its average value. It is applied to the annual rate of return of an investment, to measure the investment's volatility (risk). Standard deviation is synonymous with volatility, in that the greater the standard deviation the more volatile an investment's return will be. A standard deviation of zero would mean an investment has a return rate that never varies.*

Treasuries *are U.S. government debt obligations that are backed by the full faith and credit of the government. Often, they are used as a proxy for a risk-free asset when comparing other risky assets.*

Yield Curves *illustrate the relationship between the interest rate, or cost of borrowing, and the time to maturity. Yields move inversely to prices. The Barclays Capital 1-10 Year US TIPS Index: Barclays Capital 1-10 Year US TIPS Index measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of one to ten years.*